HOUSE BILL ANALYSIS
HB 2083

Brief Description: Establishing state reserve accounts.

Sponsors: Representatives Conway and Reardon

Hearing: February 24, 1999

Brief Summary of Bill

- Establishes a state reserve trust account funded by a state tax at a rate that is equal to a reduction in the unemployment tax rate.
- Uses interest earned on the state reserve trust account to make refunds to eligible employers whose unemployment insurance tax rate is higher than their unemployment benefit costs.

BACKGROUND:

Under Washington's unemployment insurance system, most employers pay unemployment insurance contributions on a percentage of their taxable payroll. These contributions are held in trust to pay benefits to unemployed workers. Certain public employers who are not taxpaying employers cover the cost of unemployment benefits paid to their former workers by reimbursing the Employment Security Department on a dollar-for-dollar basis for benefits paid.

Employers' contribution rates are determined by two factors: the employer's position in the tax array and the statutory tax schedule in effect. The employer's position in the tax array depends on the employer's layoff experience relative to other employers' experience. Based on this relationship, employers may be placed in any one of 20 tax rate classes. The rates in these classes are determined by the tax schedule in effect. The effective tax schedule for any given calendar year depends on the amount of funds in the unemployment insurance trust fund on June 30 of the previous year compared to the total payroll in covered employment in the state for the completed calendar year prior to that June 30.

Prepared for the House Commerce & Labor Committee
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In 1985, Washington created a special program to assist unemployment claimants to return to work by establishing a special account, funded with employer contributions of 0.02 percent on wages taxed under the unemployment system. At the same time, unemployment insurance taxes on employers qualified to be in the tax array were reduced by 0.02 percent, except for employers in the highest rate class, rate class 20.

Beginning with North Carolina in 1986, several states used a similar funding mechanism to establish state reserve accounts. The accounts are funded by reducing the unemployment tax rate by 20 percent and directing that amount of revenue, derived from a new state tax, into the state reserve account. These accounts dedicate the principal in the account to the payment of unemployment benefits, but use the interest earned from the state account to pay unemployment insurance administrative costs, or fund employment service programs or job training programs. In addition to North Carolina, the states with state reserve accounts are Idaho, Nebraska, Oregon, and Wyoming.

From 1994 through 1997, Washington also used a similar funding mechanism to pay for an employment and training program.

SUMMARY OF BILL:

A state reserve trust account and a state reserve interest account are created separate from other state moneys, under a treasurer designated by the commissioner of the Employment Security Department. Beginning in January 2000, funds are deposited in the state reserve trust account from a quarterly employer tax of 0.4 percent of wages taxable under the unemployment insurance system. This tax does not apply to employers that pay their unemployment insurance liabilities by reimbursing the department or to employers that pay unemployment insurance taxes in rate class 20.

Money in the state reserve trust account may be used only for loans to the unemployment trust fund, as security for loans from the federal unemployment trust fund, and to pay the costs of administering the state reserve trust and interest accounts.

The interest on the state reserve trust account is deposited into the state reserve interest account to be used only for:

- the cost of programs specifically listed by law; and
- refunds to certain employers whose unemployment insurance tax rate is at least 20 percent higher than their benefit costs.

The calculation of the unemployment trust fund balance for determining the effective unemployment tax schedule is modified by requiring a multiplier of 1.25.

The percent contribution rate of employers qualified to be in the unemployment insurance tax array is reduced by 0.4, except for employers in rate class 20.

RULES AUTHORITY: The bill does not contain provisions addressing the rule making powers of an agency.

FISCAL NOTE: Requested February 18, 1999.

EFFECTIVE DATE: The bill contains an emergency clause and takes effect July 1, 1999.